

Senate File 95 - Introduced

SENATE FILE 95

BY CHAPMAN and ANDERSON

A BILL FOR

1 An Act relating to state financing involving the state
2 general fund expenditure limitation by revising calculation
3 requirements for the limitation, increasing reserve fund
4 balances, creating a safety net fund, creating an Iowa
5 personal income tax rate reduction fund, making transfers,
6 and providing for related state personal income tax rate
7 reductions, and including effective date and applicability
8 provisions.
9 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 8.54, subsection 1, Code 2015, is amended
2 by adding the following new paragraphs:

3 NEW PARAGRAPH. *Ob.* "*Iowa wage and salary component*" means
4 the wage and salary component of the quarterly state personal
5 income table for Iowa issued by the bureau of economic analysis
6 of the United States department of commerce. For the purposes
7 of this paragraph and paragraph "*c*", "*quarter*" means the
8 calendar year quarter identified in the table issued by the
9 bureau.

10 NEW PARAGRAPH. *c.* "*Wage and salary growth factor*" means
11 one-half of the percentage increase, if any, in the average
12 of the second quarter Iowa wage and salary component issued
13 immediately prior to the meeting of the revenue estimating
14 conference held by December 15 in accordance with section
15 8.22A, subsection 3, and the Iowa wage and salary components
16 for the three quarters immediately preceding such second
17 quarter component, as compared to the average of the four
18 quarters of the Iowa wage and salary component immediately
19 preceding the oldest quarter used to calculate the first
20 average.

21 Sec. 2. Section 8.54, subsection 2, Code 2015, is amended
22 to read as follows:

23 2. *a.* There is created a state general fund expenditure
24 limitation for each fiscal year calculated as provided in
25 this section. An expenditure limitation shall be used for
26 the portion of the budget process commencing on the date the
27 revenue estimating conference agrees to a revenue estimate for
28 the following fiscal year in accordance with section 8.22A,
29 subsection 3, and ending with the governor's final approval
30 or disapproval of the appropriations bills applicable to that
31 fiscal year that were passed prior to July 1 of that fiscal
32 year in a regular or extraordinary legislative session.

33 *b.* A wage and salary growth factor for the following
34 fiscal year shall be calculated jointly by the department of
35 management and the legislative services agency for use in the

1 budget process for the following fiscal year in accordance with
2 this section. The wage and salary growth factor calculation
3 for the following fiscal year shall be issued concurrently
4 with the meeting of the revenue estimating conference held by
5 December 15 in which the estimates used to develop the adjusted
6 revenue estimate for the following fiscal year are agreed to
7 by the conference.

8 Sec. 3. Section 8.54, subsection 3, Code 2015, is amended
9 to read as follows:

10 3. Except as otherwise provided in this section, the state
11 general fund expenditure limitation for a fiscal year shall be
12 ninety-nine the lesser of the following amounts:

13 a. Ninety-nine percent of the adjusted revenue estimate for
14 the fiscal year.

15 b. The percentage derived from adding to one hundred percent
16 the wage and salary growth factor calculated for the fiscal
17 year times the final state general fund expenditure limitation
18 for the prior fiscal year.

19 Sec. 4. Section 8.54, subsection 5, Code 2015, is amended by
20 striking the subsection.

21 Sec. 5. Section 8.55, subsection 2, Code 2015, is amended
22 to read as follows:

23 2. The maximum balance of the fund is the amount equal to
24 two and one-half percent of the adjusted revenue estimate for
25 the fiscal year. If the amount of moneys in the Iowa economic
26 emergency fund is equal to the maximum balance, moneys in
27 excess of this amount shall be distributed as follows in the
28 following order:

29 a. The initial excess, not to exceed the amount necessary
30 for the safety net fund to reach its maximum balance of two
31 percent of the adjusted revenue estimate for the fiscal year,
32 shall be transferred to the safety net fund.

33 b. The remainder of the excess, not to exceed one percent
34 of the adjusted revenue estimate, shall be transferred to the
35 secondary road fund.

1 c. The remainder of the excess, not to exceed the first
2 sixty million dollars of the difference between the actual net
3 revenue for the general fund of the state for the fiscal year
4 and the adjusted revenue estimate for the fiscal year, shall be
5 transferred to the taxpayers trust fund.

6 ~~b.~~ d. The remainder of the excess, if any, shall be
7 transferred to the ~~general fund of the state~~ Iowa personal
8 income tax rate reduction fund created in section 8.57G.

9 Sec. 6. NEW SECTION. 8.57G Iowa personal income tax rate
10 reduction fund.

11 1. An Iowa personal income tax rate reduction fund is
12 created. The fund shall be separate from the general fund of
13 the state and the balance in the fund shall not be considered
14 part of the balance of the general fund of the state. The
15 moneys credited to the fund are not subject to section 8.33 and
16 shall not be transferred, used, obligated, appropriated, or
17 otherwise encumbered except as provided in this section.

18 2. a. Moneys in the Iowa personal income tax rate reduction
19 fund shall only be used pursuant to appropriations or transfers
20 made by the general assembly for tax relief.

21 b. No later than June 30 in each fiscal year the entire
22 balance of the Iowa personal income tax rate reduction fund, if
23 any, is transferred to the general fund of the state.

24 c. The moneys transferred to the general fund of the state
25 in accordance with paragraph "b" shall not be considered new
26 revenue for purposes of the state general fund expenditure
27 limitation under section 8.54 but instead shall be considered
28 as replacing a like amount included in the expenditure
29 limitation for the fiscal year in which the transfer is made.

30 3. a. Moneys in the Iowa personal income tax rate reduction
31 fund may be used for cash flow purposes during a fiscal year
32 provided that any moneys so allocated are returned to the fund
33 by the end of that fiscal year.

34 b. Except as provided in section 8.58, the Iowa personal
35 income tax rate reduction fund shall be considered a special

1 account for the purposes of section 8.53 in determining the
2 cash position of the general fund of the state for the payment
3 of state obligations.

4 4. Notwithstanding section 12C.7, subsection 2, interest or
5 earnings on moneys deposited in the Iowa personal income tax
6 rate reduction fund shall be credited to the fund.

7 **Sec. 7. NEW SECTION. 8.57H Safety net fund.**

8 1. A safety net fund is created. The fund shall be separate
9 from the general fund of the state and the balance in the fund
10 shall not be considered part of the balance of the general fund
11 of the state. The moneys credited to the fund are not subject
12 to section 8.33 and shall not be transferred, used, obligated,
13 appropriated, or otherwise encumbered except as provided in
14 this section.

15 2. Moneys in the safety net fund shall only be used pursuant
16 to appropriations or transfers made by the general assembly
17 to augment appropriations made for important education,
18 employment, health, human services, and other programs to aid
19 individuals and families with low income.

20 3. a. Moneys in the safety net fund may be used for cash
21 flow purposes during a fiscal year provided that any moneys so
22 allocated are returned to the fund by the end of that fiscal
23 year.

24 b. Except as provided in section 8.58, the safety net fund
25 shall be considered a special account for the purposes of
26 section 8.53 in determining the cash position of the general
27 fund of the state for the payment of state obligations.

28 4. Notwithstanding section 12C.7, subsection 2, interest
29 or earnings on moneys deposited in the safety net fund shall
30 be credited to the fund.

31 **Sec. 8. Section 8.58, Code 2015, is amended to read as**
32 **follows:**

33 **8.58 Exemption from automatic application.**

34 1. ~~To the extent that moneys appropriated under section~~
35 ~~8.57 do not result in moneys being credited to the general fund~~

1 ~~under section 8.55, subsection 2, moneys~~ Moneys appropriated
 2 under section 8.57 and moneys contained in the cash reserve
 3 fund, rebuild Iowa infrastructure fund, environment first
 4 fund, Iowa economic emergency fund, taxpayers trust fund,
 5 ~~and state bond repayment fund, Iowa personal income tax rate~~
 6 ~~reduction fund, and safety net fund~~ shall not be considered
 7 in the application of any formula, index, or other statutory
 8 triggering mechanism which would affect appropriations,
 9 payments, or taxation rates, contrary provisions of the Code
 10 notwithstanding. To the extent that moneys projected to be
 11 transferred from the Iowa personal income tax rate reduction
 12 fund to the general fund of the state pursuant to section
 13 8.57G replace revenues reduced pursuant to section 422.5,
 14 subsection 1, paragraph "k", such moneys so transferred shall
 15 not be considered by an arbitrator or in negotiations under
 16 chapter 20 in the application of such mechanisms that affect
 17 appropriations, payments, or taxation rates.

18 2. ~~To the extent that moneys appropriated under section~~
 19 ~~8.57 do not result in moneys being credited to the general fund~~
 20 ~~under section 8.55, subsection 2, moneys~~ Moneys appropriated
 21 under section 8.57 and moneys contained in the cash reserve
 22 fund, rebuild Iowa infrastructure fund, environment first
 23 fund, Iowa economic emergency fund, taxpayers trust fund,
 24 ~~and state bond repayment fund, Iowa personal income tax rate~~
 25 ~~reduction fund, and safety net fund~~ shall not be considered
 26 by an arbitrator or in negotiations under chapter 20. To the
 27 extent that moneys projected to be transferred from the Iowa
 28 personal income tax rate reduction fund to the general fund of
 29 the state pursuant to section 8.57G replace revenues reduced
 30 pursuant to section 422.5, subsection 1, paragraph "k", such
 31 moneys so transferred shall not be considered by an arbitrator
 32 or in negotiations under chapter 20 in the application of such
 33 mechanisms that affect appropriations, payments, or taxation
 34 rates.

35 Sec. 9. Section 422.5, subsection 1, Code 2015, is amended

1 by adding the following new paragraph:

2 ~~NEW PARAGRAPH.~~ *k.* For the tax year beginning January
 3 1 immediately preceding July 1 of any fiscal year in which
 4 a transfer is made from the Iowa personal income tax rate
 5 reduction fund to the general fund of the state pursuant to
 6 section 8.57G, subsection 2, paragraph "b", each rate in
 7 paragraphs "a" through "i" shall be reduced, and rounded to the
 8 nearest one-hundredth of one percent, by the percentage that
 9 the amount transferred during the fiscal year from the Iowa
 10 personal income tax rate reduction fund to the general fund
 11 of the state bears to the actual net revenue for the general
 12 fund of the state for the fiscal year immediately preceding
 13 the fiscal year in which such transfer was made from the Iowa
 14 personal income tax rate reduction fund to the general fund of
 15 the state. A tax rate reduction provided in this paragraph
 16 only applies to the tax year which is the subject of the rate
 17 reduction and shall not affect tax rates in any successive tax
 18 year. The department shall draft the income tax form for any
 19 tax year in which rates are reduced under this paragraph to
 20 provide information to taxpayers necessary to calculate the tax
 21 due.

22 Sec. 10. Section 422.5, subsection 2, paragraph a, Code
 23 2015, is amended to read as follows:

24 *a.* There is imposed upon every resident and nonresident
 25 of this state, including estates and trusts, the greater of
 26 the tax determined in subsection 1, paragraphs "a" through "~~j~~"
 27 "~~k~~", or the state alternative minimum tax equal to seventy-five
 28 percent of the maximum state individual income tax rate for the
 29 tax year, rounded to the nearest one-tenth of one percent, of
 30 the state alternative minimum taxable income of the taxpayer as
 31 computed under this subsection.

32 Sec. 11. Section 422.11B, Code 2015, is amended to read as
 33 follows:

34 **422.11B Minimum tax credit.**

35 1. *a.* There is allowed as a credit against the tax

1 determined in section 422.5, subsection 1, paragraphs "a"
 2 through "j" "k" for a tax year an amount equal to the minimum
 3 tax credit for that tax year.

4 b. The minimum tax credit for a tax year is the excess,
 5 if any, of the net minimum tax imposed for all prior tax
 6 years beginning on or after January 1, 1987, over the amount
 7 allowable as a credit under this section for those prior tax
 8 years.

9 2. a. The allowable credit under subsection 1 for a tax
 10 year shall not exceed the excess, if any, of the tax determined
 11 in section 422.5, subsection 1, paragraphs "a" through "j" "k"
 12 over the state alternative minimum tax as determined in section
 13 422.5, subsection 2.

14 b. The net minimum tax for a tax year is the excess, if any,
 15 of the tax determined in section 422.5, subsection 2, for the
 16 tax year over the tax determined in section 422.5, subsection
 17 1, paragraphs "a" through "j" "k" for the tax year.

18 Sec. 12. Section 422.16, subsection 1, paragraph a, Code
 19 2015, is amended to read as follows:

20 a. Every withholding agent and every employer as defined
 21 in this chapter and further defined in the Internal Revenue
 22 Code, with respect to income tax collected at source, making
 23 payment of wages to a nonresident employee working in Iowa,
 24 or to a resident employee, shall deduct and withhold from the
 25 wages an amount which will approximate the employee's annual
 26 tax liability on a calendar year basis, calculated on the
 27 basis of tables to be prepared by the department and schedules
 28 or percentage rates, based on the wages, to be prescribed by
 29 the department, and calculated without regard to the rate
 30 reductions provided in section 422.5, subsection 1, paragraph
 31 "k". Every employee or other person shall declare to the
 32 employer or withholding agent the number of the employee's
 33 or other person's personal allowances to be used in applying
 34 the tables and schedules or percentage rates. However, no
 35 greater number of allowances may be declared by the employee

1 or other person than the number to which the employee or other
2 person is entitled except as allowed under sections 3402(m)(1)
3 and 3402(m)(3) of the Internal Revenue Code and as allowed
4 for the child and dependent care credit provided in section
5 422.12C. The claiming of allowances in excess of entitlement
6 is a serious misdemeanor.

7 Sec. 13. EFFECTIVE DATE. This Act takes effect July 1,
8 2016.

9 Sec. 14. APPLICABILITY. The following provisions of this
10 Act are first applicable to calculate the state general fund
11 expenditure limitation for the fiscal year beginning July 1,
12 2016:

13 1. The sections amending section 8.54.

14 2. The sections amending section 8.55.

15 EXPLANATION

16 The inclusion of this explanation does not constitute agreement with
17 the explanation's substance by the members of the general assembly.

18 This bill relates to the state general fund expenditure
19 limitation by revising calculation requirements for the
20 limitation, creating an Iowa personal income tax rate reduction
21 fund, making transfers, and providing for related state
22 personal income tax rate reductions.

23 Code section 8.54, relating to the state general fund
24 expenditure limitation, is amended to provide an additional
25 method for calculating the limitation. Under current law, the
26 limitation is 99 percent of the adjusted revenue estimate for
27 the following fiscal year based on an estimate approved by the
28 revenue estimating conference in a meeting held by December 15.
29 The new calculation method in the bill is based on the growth
30 in the average wage and salary component of the quarterly
31 state personal income table for Iowa issued by the bureau of
32 economic analysis of the United States department of commerce.
33 Under the new method, the department of management and the
34 legislative services agency are directed to apply the component
35 issued for the quarters of a two-year period to jointly

1 calculate a wage and salary growth factor percentage. One-half
2 of this percentage is added to 100 percent and applied to the
3 amount of the state general fund expenditure limitation for the
4 prior fiscal year (fiscal year in progress). The lesser amount
5 identified by the two methods is required to be used as the
6 state general fund expenditure limitation in the budget process
7 for the following fiscal year.

8 Under current law, if a surplus is anticipated for the
9 general fund of the state at the close of a fiscal year, any
10 excess remaining, after the surplus is applied to bring state
11 reserve funds to their maximum balances, is transferred back
12 to the state general fund for the following fiscal year. The
13 original state general fund expenditure limitation for that
14 following fiscal year is required to be readjusted to reflect
15 the amount of excess anticipated to be transferred. The bill
16 repeals the current law requirements for the excess in Code
17 sections 8.54(5) and 8.55(2) and instead requires the excess
18 to be transferred in the following order: first to the safety
19 net fund created by the bill, up to the maximum balance for
20 the safety net fund which is established as 2 percent of the
21 adjusted revenue estimate for the fiscal year; next, to the
22 secondary road fund in an amount of up to 1 percent of the
23 adjusted revenue estimate for the fiscal year; next, to the
24 taxpayer trust fund, up to the maximum amount specified in
25 current law; and the entire remainder to the personal income
26 tax rate reduction fund created by the bill.

27 New Code section 8.57G creates an Iowa personal income tax
28 rate reduction fund separate from the general fund. Moneys
29 in the fund can only be used pursuant to appropriations or
30 transfers made by the general assembly for tax relief, and
31 pursuant to law for temporary cash flow purposes.

32 New Code section 8.57H creates a safety net fund separate
33 from the general fund. Moneys in the fund can only be used
34 pursuant to appropriations or transfers made by the general
35 assembly to augment appropriations made for important

1 education, employment, health, human services, and other
2 programs to aid individuals and families with low income, and
3 pursuant to law for temporary cash flow purposes.

4 Moneys in the new funds are treated similarly to other
5 reserve funds under Code section 8.58 and exempted from
6 automatic application in triggering mechanisms which affect
7 appropriations, payments, or taxation rates and cannot be
8 considered by an arbitrator or in collective bargaining
9 negotiations under Code chapter 20.

10 Moneys transferred to the Iowa personal income tax rate
11 reduction fund are required to be transferred to the general
12 fund of the state by the end of the same fiscal year and treated
13 as a replacement of revenue resulting from the individual
14 income tax rate reduction provided for in the bill.

15 For tax years beginning January 1 immediately preceding July
16 1 of a fiscal year in which a transfer is made to the Iowa
17 personal income tax rate reduction fund, the rates for each of
18 the nine tax brackets of the individual income tax are required
19 to be reduced by the percentage that the amount transferred
20 to the fund bears to the state's actual net revenue for the
21 preceding fiscal year. Tax rate reductions only apply for one
22 tax year and do not affect tax rates in any successive tax
23 year. Withholding agents and employers are prohibited from
24 factoring in such an individual income tax rate reduction in
25 their calculation of appropriate employee withholding amounts
26 during a tax year. Under the bill, the tax year beginning
27 January 1, 2016, is the first tax year to which the individual
28 income tax rate reduction may apply.

29 The bill takes effect July 1, 2016. However, the provisions
30 affecting calculation of the state general fund expenditure
31 limitation are first applicable for the budget process for the
32 fiscal year beginning July 1, 2016 (FY 2016-2017).